

Message Text

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ACTION ARA-20

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 7009

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EO 11652: GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJ: CERRO DE PASCO NEGOTIATIONS

REF: LIMA 5425

1. HIGGS CALLED ON CHARGE SEPTEMBER 11 TO INFORM HIM THAT HE AND WALSH EXPECTED TO HOLD NEGOTIATING SESSION WITH GENERAL MIRO QUESADA ON SEPTEMBER 13. HIGGS SAID STRATEGY HE AND WALSH HAD IN MIND WAS TO LISTEN TO PERUVIAN PRESENTATION AND OFFER (WHICH THEY EXPECT TO BE COMPLETELY UNACCEPTABLE) AND THEN TO DRAW PERUVIANS OUT WITH AS MANY QUESTIONS AS POSSIBLE. AT END OF SESSION, THEY WILL ASK FOR RECESS TO CONSIDER THEIR RESPONSE, AND WALSH IS PLANNING TO RETURN TO NEW YORK THAT NIGHT. CERRO WILL THEN SEEK TO DELAY RESUMPTION OF NEGOTIATIONS UNTIL AFTER GREENE HAS HAD OPPORTUNITY TO CONFER AGAIN WITH GOP.

2. IN MEANTIME, CERRO HAS BEEN OFFICIALLY INFORMED BY LETTER DATED SEPTEMBER 10 FROM MINISTRY OF ECONOMY AND FINANCE THAT AMOUNT OF 2,373,194,520 SOLES (\$61,322.856 AT RATE OF 38.70 SOLES PER DOLLAR) WOULD HAVE TO BE DDUCTED FROM CERRO'S CAPITALIZATION. AMOUNT REPRESENTS VALUE PLACED BY CERRO ON UNMINED ORE RESERVES, MOST RE-
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CENTLY RECALCULATED IN 1964 IN ACCORD WITH THEN EXISTING

PERUVIAN LAW. GOP NOW TAKES POSITION THAT, SINCE SUB-SURFACE RESOURCES BELONG TO THE STATE AND SINCE CERRO IS ONLY MINING COMPANY OPERATING IN PERU WHICH HAS THUS CAPITALIZED ITS ORE RESERVES, THIS PRACTICE ON PART OF CERRO IS INCORRECT AND CAPITALIZATION MUST BE REVISED DOWNWARD ACCORDINTLY.

3. HIGGS SAID HE HAD NOT BEEN ENTIRELY SURPRISED BY THIS MOVE, ALTHOUGH HE WAS DISTURBED BY WAY IN WHICH IT HAD BEEN DONE AND BY TIMING. HE SAID IT WOULD HAVE THREE PRINCIPAL EFFECTS:

A. CERRO'S BOOK VALUE, AND HENCE TO SOME EXTENT ITS BARGAINING POSITION, HAS BEEN IMMEDIATELY REDUCED FROM \$175 MILLION TO \$114 MILLION.

B. SINCE PROFITS ARE THUS AUTOMATICALLY RELATED TO SMALLER CAPITALIZATION, RATE OF EARNINGS AS PERCENT OF PROFITS IS THEREBY AUTOMATICALLY INCREASED. THUS CERRO WILL OWE MORE INCOME TAX, WHICH HIGGS ESTIMATED AT INE MILLION SOLES FOR 1972 AND PERHAPS THIRTY MILLION SOLES FOR 1973.

C. AMOUNT OF CERRO CONTRIBUTION TO MINING COMMUNITY WILL ALSO HAVE TO BE INCREASED, BUT BY ONLY ABOUT ONE PERCENT IN HIGGS' ESTIMATION, WHICH HE DID NOT REGARD AS SIGNIFICANT.

4. FOREGOING REVISION OF CERRO'S BOOK VALUE CONTINUES TO BE USED BY MINISTRY OF FINANCE AS PRETEXT TO DEFER CERRO REMITTANCES. (WHEN EMBASSY OFFICER SPOKE TO VICE MINISTER OF FINANCE BROUSSET ON SUBJECT SEPTEMBER 10, LATTER SAID HE THOUGHT PROBLEM OF REMITTANCES MIGHT BE RESOLVED " IN AMONT OR A MONTH AND A HALF".) HIGGS SAID PRESENT POSITION WAS AS FOLLOWS:

A. PROFITS: NO PROFIT REMITTANCES HAVE BEEN APPROVED SINCE APRIL 1972 WHEN \$400,000 WAS REMITTED. THIS FIGURE INCLUDED OFFSET FOR LOSSES INCURRED IN 1971. NOW PENDING ARE REMITTANCES OF \$4,000,000 REPRESENTING THE BALANCE OF 1972 PROFITS AND ABOUT \$10,000,000 FOR 1973 TO DATE.

B. DEPRECIATION: CERRO HAS RECEIVED CONVERTIBILITY FOR DEPRECIATION ONLY THROUGH 1972. RATE IS ABOUT ONE MILLION DOLLARS PER MONTH.

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C. REINVESTMENT: CERRO HAS APPLIED FOR CONVERTIBILITY OF \$10.5 MILLION FOR REINVESTMENT PURPOSES BUT GOP HAS TAKEN NO ACTION TO DATE.

D. OPERATIONS: CERRO HAS SUBMITTED CONVERTIBILITY BUDGET FOR OPERATIONS OF \$23 MILLION FOR 1973. ONLY \$8 MILLION HAS BEEN APPROVED THROUGH JUNE. HIGGS SAID HE HAS THEREFORE BEEN FORCED TO ORDER THAT NO FURTHER IMPORTED SUPPLIES BE PURCHASED UNTIL GOP APPROVES ADDITIONAL

AMOUNT. HE ADMITTED THIS ACTION WOULD AFFECT OPERATIONS,
BUT SAID HE HAD NO ALTERNATIVE.

5. HIGGS SAID HE WAS INCREASINGLY PESSIMISTIC ON OUT-COME OF NEGOTIATIONS, PARTICULARLY IN VIEW OF WHAT APPEARED TO HIM TO BE ORCHESTRATED GOP CAMPAIGN AGAINST CERRO. HE FURTHER UNDERSTANDS THAT GOP INTENDS TO MAKE PUBLIC ITS POSITION WITH RESPECT TO CERRO ON SEPTEMBER 15, WHICH WILL HAVE EFFECT ON CONGEALING ITS NEGOTIATING POSITION.

BARNEBEY

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